

The logo for Consumers Energy, featuring the company name in a blue, italicized sans-serif font. A green swoosh underline starts under the 'C' and ends under the 'y'.

Consumers Energy

Count on Us

HOUSE ENERGY COMMITTEE

Holly Bowers – Executive Director of
Geospatial and Gas Asset Management

Natural Gas Legislation (HB 4303)

June 3, 2015

Good morning Mr. Chairman and distinguished members of the House Energy Committee. I am Holly Bowers, Executive Director of Geospatial and Gas Asset Management for Consumers Energy. I am here to support House Bill 4303, legislation introduced by Representative Brett Roberts. The legislation, if passed, would help provide expanded natural gas service to unserved or underserved residents across Michigan. In short, this legislation would help our customers and your constituents.

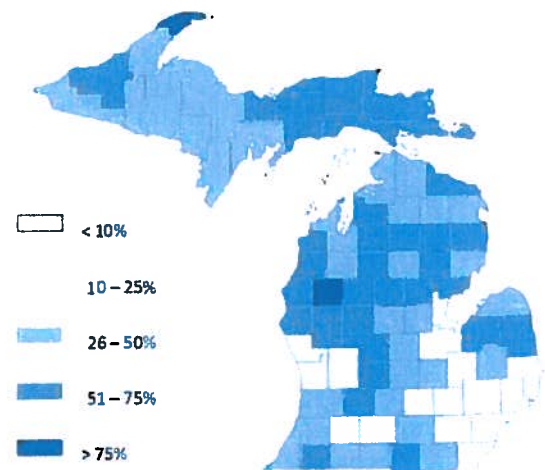
In my testimony today, I will briefly cover what we see as an opportunity for expanding natural gas service and the challenges we currently face, and then discuss the potential economic benefits of HB 4303.

Opportunity to Expand Natural Gas Service

Low natural gas prices are projected to last for the foreseeable future, with the U.S. Energy Information Administration projecting natural gas to stay 40-50 percent more cost effective than propane through 2040¹. However, across Michigan, 22 percent of households were not using natural gas as of the 2010 census, along with many rural businesses. As a result, we've identified an opportunity for natural gas to play a key role in Michigan's economic development. We know from recent winters that some residents and businesses were hit hard by the high cost of other fuel sources used for heating, most notably propane.

Switching to natural gas from alternate fuel sources can save Michigan residents and businesses up to 60 percent on their heating costs; savings which put more money into the pockets of Michigan residents and encourage businesses to expand, ultimately benefitting the state's economy. A typical single-family home would see an annual savings of around \$1,740 when compared with average propane prices over the previous (2014/2015) heating season². The savings are equally significant for business customers, whose bulk propane rates are still typically twice the cost of natural gas. For example, a modest grain drying operation using 10,000 gallons of propane per season would see an annual savings of \$8,400.

Percent of Michigan Households Heated by Fuel Other Than Natural Gas



¹ U.S. Energy Information Administration. (2014). *Annual Energy Outlook 2014 Early Release (Report No. DOE/EIA-0383ER(2014))*. Retrieved from www.eia.gov

² EIA Michigan Weekly Heating Oil and Propane Prices (October-March). As Published by Dept. of Licensing & Regulatory Affairs. Retrieved from <http://www.dleg.state.mi.us/mpsc/reports/shopp/>

Consumers Energy estimates that with the support of this legislation, 60,000-70,000 Michigan residents inside our service territory could be affordably connected, representing more than \$100 million in potential annual savings. In the first five years, this bill could be directly responsible for the connection of more than 10,000 additional customers.

Beyond the need to expand natural gas access to unserved areas of this state, there are also areas where the gas system currently allows for reliable service, but we can't safely deliver enough gas to meet customers' demand without significant investment. This is most often caused by groups of business customers seeking to expand their operations near the fringe of the system. Currently, the cost of increasing capacity must be recovered from a small number of requesting customers, which prevents businesses from investing, growing and creating jobs.

As utilities upgrade the natural gas infrastructure system to meet the demands of unserved and underserved customers, it is expected those upgrades will also improve reliability.

HB 4303 would help ensure a lack of availability does not become a barrier to economic development in Michigan.

Current Challenges to Expansion

For a business or resident to receive new natural gas service, a new gas main must be installed out to the property from the existing distribution network — similar to extending a road to serve a newly built home or subdivision. Under the current policy for expansion of the natural gas system in Michigan, these costs must be entirely funded by the new, connecting customers.

As a result, many potential customers find connecting to be cost prohibitive, and for those who do connect, utilities typically install the lowest-cost system to meet their needs. This bill allows us to support a portion of these costs, significantly increasing the number of residents and businesses who could affordably connect to natural gas with nominal impact on existing customers, and allowing utilities to expand the system in a way which provides capacity for future growth.

Impact & Overview of HB 4303

HB 4303 would help utilities identify strategic investments to facilitate customer growth and benefit the communities we serve. Additionally, the bill would allow utilities to recover the cost of those investments.

Energy providers will submit a plan of proposed projects to the Michigan Public Service Commission from which, after reviewing the cost and relevant benefits, the Commission will approve projects viewed as reasonable and prudent. This bill would work in conjunction with the utilities' existing customer connection programs, providing support to cost effectively increase opportunities to connect customers to affordable natural gas.

The bill will not provide free connections to any customers; it is designed to support investment by providing a backbone of natural gas infrastructure into unserved and underserved areas from which continued expansion can occur under the existing model, funded by only the connecting customers. Even in the event a customer would attach directly to a project funded through this program, they would still pay for their individual service connection to the main. Any revenue from the customer would be applied against the cost of the project, reducing the amount of funding necessary by our current customer base.

Economic Impacts

This bill represents an opportunity for much more than protecting our connecting customers' pocketbooks. It is a smart economic investment for every resident in our state. The savings provide residents with additional disposable income and businesses with lower costs. In turn, businesses will see a strong incentive to invest, expand and create good-paying jobs in Michigan. Economic modeling using the REMI (Regional Economic Multiplier, Inc.) model indicates the impact to the regional economy of the bill, from Consumers Energy's investment alone, is almost \$500 million in GDP growth over the next 30 years, along with 150 permanent jobs and 560 total jobs (200 of these jobs would be construction jobs).

One of the benefits of this legislation we are most excited about is the increased ability to connect agriculture customers. Currently, both agriculture processors and farms often lack gas service and must utilize propane for activities such as grain drying. Expanding gas service to rural Michigan will help support the growth of the agricultural industry.

Closing

I appreciate the opportunity to speak in support of HB 4303. Building gas infrastructure to assist citizens throughout Michigan will play a key role in ensuring customers have safe, reliable and affordable energy service. We urge you to support this legislation. Thank you for your time this morning.